

## Message Text

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PAGE 01 STATE 225798  
ORIGIN SS-25

INFO OCT-01 ISO-00 SSO-00 /026 R

DRAFTED BY TREASURY/IDN/RBLAKE  
APPROVED BY EUR/SE:CEDILLERY  
USED/IMF/SCROSS  
AID/NE:JKNOLL (INFO)  
EB/IFD/OMA:TAFORBORD  
EUR/SE:AFLANIGAN  
S/S-O:JTHYDEN

-----128589 070525Z /17

P 062009Z SEP 78  
FM SECSTATE WASHDC  
TO AMEMBASSY ANKARA PRIORITY

C O N F I D E N T I A L STATE 225798

EXDIS

E.O. 11652:

TAGS: TU, IMF

SUBJECT: URKISH/IMF RELATIONS

REF: ANKARA 6177

1. AT MEETING WITH USG OFFICIALS AUGUST 31, IMF STAFF PROVIDED DEBRIEF ON RECENT FUND/GOT DISCUSSIONS IN ANKARA. FACT THAT THIS MEETING TOOK PLACE SHOULD NOT BE REVEALED TO GOT OFFICIALS.

2. WHILE IN ANKARA, GOT SUPPLIED FUND STAFF WITH RECENT DATA ON TURKEY'S PERFORMANCE UNDER TECHNICAL STANDBY CRITERIA. AS PER REFTTEL, DATA INDICATE THAT GOT PERFORMANCE UNDER STANDBY CRITERIA BETTER THAN EXPECTED. WHILE GOT  
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APPARENTLY EXCEEDED NET DOMESTIC ASSET CEILING BY TL 5 BILLION, EXCESS CAN BE EXPLAINED BY REVISIONS IN BASE PERIOD DATA. AS FOR EXTERNAL COMMERCIAL ARREARS, DATA SHOWED DECLINE IN LEVEL OF ARREARAGES OUTSTANDING OF \$100 MILLION SINCE APRIL. FUND STAFF IS WARY OF THIS RESULT AS IT IMPLIES SIGNIFICANT FOREIGN EXCHANGE INFLOWS IN JUNE AND JULY PREVIOUSLY UNACCOUNTED FOR, BUT RELIES ON GOT DATA.

3. ON THE RECENTLY INTRODUCED EXPORT TAX REBATES, WHICH ARE TECHNICAL VIOLATIONS OF STANDBY PROGRAM, THE GOT OFFICIALS ARGUED THAT THESE WERE FISCAL MEASURES AND WERE CONSISTENT WITH GATT RULES. FUND STAFF DID NOT NECESSARILY AGREE WITH THIS ARGUMENT BUT FELT GIVEN SIZE OF THE REBATES AND FACT THAT THEY WERE STILL BELOW PRE-STANDBY LEVELS, THEIR INTRODUCTION DID NOT WARRANT REFUSAL OF SECOND DRAWING. AS REGARDS RECENTLY CONCLUDED TRADE AGREEMENTS, ISSUE IS APPARENTLY LEGALISTIC ONE OF WHETHER OR NOT AGREEMENTS ARE BILATERAL TRADE ARRANGEMENTS AND THEREFORE TECHNICAL VIOLATIONS OF STANDBY. WHILE STAFF CONSIDERS THESE AGREEMENTS UNWISE, IT IS NOT WILLING TO WITHHOLD SECOND DRAWING ON NARROW LEGALISTIC GROUNDS.

4. IN FACE OF THESE FINDINGS, FUND STAFF AND FINANCE MINISTER NEGOTIATED AN UNDERSTANDING WHICH WAS SUBSEQUENTLY CONFIRMED BY IMF MANAGING DIRECTOR. THE FINANCE MINISTER AGREED NOT REPEAT NOT TO REQUEST SECOND DRAWING UNTIL FURTHER MEASURES ARE TAKEN TO REDUCE PUBLIC SECTOR DEFICIT. AS DECIDED BY GOT, MEASURES WOULD INVOLVE INCREASES IN CONTROLLED PRICES OF PETROLEUM, SUGAR AND POSSIBLY FERTILIZER. SIZE OF OVERALL PACKAGE OF PRICE INCREASES WILL BE MORE THAN SUFFICIENT TO COVER THE PETROLEUM SUBSIDY GOT CURRENTLY PAYS, THEREBY PROVIDING SOME FISCAL RELIEF, BUT EXACT DISTRIBUTION OF PRICE INCREASES  
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ACROSS COMMODITIES REMAINS TO BE DETERMINED. CABINET IS EXPECTED TO MAKE DECISION ON THIS MATTER SOMETIME DURING SEPTEMBER 11 THROUGH 13. THE FINANCE MINISTER DOES NOT ANTICIPATE ANY DIFFICULTY IN GETTING CABINET AGREEMENT ON PRICE INCREASES.

5. AFTER THIS DECISION, FINANCE MINISTER WILL SEND LETTER TO MANAGING DIRECTOR OUTLINING MEASURES AND REQUESTING SECOND DRAWING. LETTER WILL ALSO ASK FOR FURTHER DISCUSSIONS WITH THE FUND ON THE STANDBY PROGRAM IN OCTOBER, WITH PARTICULAR ATTENTION TO THE FOLLOWING AREAS: PUBLIC SECTOR FINANCES, MONETARY TARGETS, AND TURKISH EXPORT COMPETITIVENESS. THE FINANCE MINISTER MADE CLEAR TO FUND STAFF, THOUGH, THAT AGREEMENT TO DISCUSS PROGRAM IN OCTOBER IMPLIED NO GOT COMMITMENT TO FURTHER POLICY MEASURES BEYOND THOSE CONTEMPLATED IN SEPTEMBER. THE MANAGING DIRECTOR HAS SCHEDULED AN IMF BOARD MEETING ON SEPTEMBER 20 TO CONSIDER THIS REQUEST AND RELEASE OF SECOND DRAWING WOULD HOPEFULLY OCCUR BEFORE BANK/FUND MEETING SEPTEMBER 25.

6. FUND STAFF HOPES THAT OCTOBER DISCUSSIONS WILL LEAD TO AGREEMENT ON FURTHER POLICY MEASURES AND RECASTING

OF IMF PROGRAM PRIOR TO NOVEMBER DRAWING. STAFF DOES NOT CONSIDER IT PROBABLE THAT GOT CAN MEET TECHNICAL CRITERIA FOR NOVEMBER DRAWING IN ABSENCE OF REWORKING OF STANDBY PROGRAM. IT HOPES THAT COMBINATION OF SEPTEMBER FISCAL MEASURES AND PROMISE OF FURTHER DISCUSSIONS WITH FUND IN OCTOBER WILL RESTORE PRIVATE BANKS' CONFIDENCE AND CAUSE THEM TO MOVE FORWARD WITH CONTEMPLATED REFINANCING/ NEW CREDIT LOAN PACKAGE.

7. IN RESPONSE TO QUESTION ON RECENT ADJUSTMENTS IN TURKISH LIRA EXCHANGE RATE, FUND STAFF SAID THAT GOT WILL VERY SOON TIE THE LIRA TO SDR BUT AT RATE IMPLIED BY CURRENT TURKISH LIRA/U.S. DOLLAR RATE. CHRISTOPHER

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## Message Attributes

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**Decaption Date:** 20 Mar 2014  
**Decaption Note:** 25 YEAR REVIEW  
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**Disposition Approved on Date:**  
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**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
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**Executive Order:** GS  
**Errors:** N/A  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014